

Assessment Schedule – 2007

Economics: Describe market failure and government interventions to correct for market failure (90631)

Evidence Statement

Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A1	One (a)		BOTH Q^1 AND Q^S correctly located.		
A1	(b) (i)	def	Correct letters.		
A2*	(b) (ii)	ce or PP_2	Correct letters.		
A1 or M1	(c)	<p>Eg:</p> <p>(I) Consumers of obesity-causing foods don't (directly) pay the full costs of their consumption, market does not take into account spillovers, junk food is overconsumed and underpriced, at Q_1 MSC is greater than MSB, market failure at Q_1</p> <p>(E) Q_s is more desirable than Q_1 because Q_s reflects social preferences, achieves allocative efficiency, $MSC=MSB$, no DWL at Q_s, reduces surpluses.</p>	A partial answer that has EITHER the I OR the E point.	Has BOTH I AND E points in explanation.	
	(d) (i)	Not assessed eg, Sales tax or Subsidy			
A2 ^{EF} or M2 ^{EF}	(d) (ii)	<p>Eg:</p> <p>(I) A sales tax raises the price to consumers of (obesity-causing) foods</p> <p>Subsidy reduces the price of exercise eg gym fees</p> <p>(E) Sales tax makes consumers decrease consumption and switch to healthier foods</p> <p>Therefore more efficient as shifts market to Q_s, reduces DWL, moves market closer to socially desirable output.</p> <p>Subsidy will increase number of people exercising and lower obesity.</p> <p>Therefore more efficient, shifts market from Q to Q_s, reduces DWL.</p>	A partial answer that has EITHER the I OR the E point.	Has BOTH I AND E points.	

Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A2^{EF} or M2^{EF*}	One (d) (iii)	Eg: (I) Tax reduces quantity consumed and raises revenue Subsidy lowers price of exercise so consumer purchase more of it. (E) Revenue from tax can be used to pay for educational programmes, with subsidy there is no compulsion to use exercise, subsidy does not target main cause of obesity, subsidy is a cost to Government rather than revenue. Subsidy will push consumers to adapt a healthier life style, reduces health costs, tax does not encourage people to be active, demand is inelastic so tax won't affect consumption.	A partial answer that has EITHER the I OR the E point.	Has BOTH I AND E points.	
A2^{EQ} or M2^{EQ*}	(d) (iv) (1 + 2)	Circles Decrease in Equity (I) A sales tax has a bigger effect on low-income earners. (E) as price increases cause them to lose greater buying power than high income groups. Circles Increase in Equity (I) A subsidy will encourage lower income people to consume exercise. (E) Subsidy allows people to enjoy a service they couldn't previously afford, society benefits through lower health costs.	A partial answer that has EITHER the I OR the E point.	Has BOTH I AND E points.	
E2 Breadth	(b)(ii) (d) (iii) (d) (iv)	A2* M2 ^{EF*} M2 ^{EQ*}			All three * grades
A1	Two (a) (i)		Q ₁ correctly identified and labeled.		
A1	(a) (ii)		Q _s correctly identified and labeled.		
A1 or M1	(b)	Idea of: (I) Consumers of public goods cannot be prevented from consuming them, even if they don't pay (E) As a result, (many) consumers won't pay, meaning firms won't earn enough revenue from supplying public goods to make a profit <i>So the private firms won't supply any public goods ie $Q_s = 0(Q)$</i>	A partial answer that has EITHER the I OR the E point.	Has BOTH I AND E points in explanation.	
A2	(c)	Eg, Roads / light houses / defence / policing/ street lights / parks.	Has a correct example.		

Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A1	Two (d) (i)		Shifts SMB right beyond maximum capacity and labels curve.		
A2#	(d) (ii)		Identifies P_1 at intersection of Max capacity and SMB1 or any price above this point.		
	(e) (i)	Not assessed eg build more facilities			
A2 ^{EF} or M2 ^{EF}	(e) (ii)	<p>(I) Building more facilities reduces congestion as it will increase the maximum capacity of National Parks, User Pays will ration facilities among users, Reduce Qd, eliminate consumers who won't pay.</p> <p>(E) More facilities eliminates DWL's as maximum capacity will increase to where $SMB = 0$</p> <p>User pays earns Government an income, income can be used to improve facilities.</p>	A partial answer that has EITHER the I OR the E point.	Has BOTH I AND E points in explanation.	
A2 ^{EF} or M2 ^{EF} #	(e) (iii)	<p>Eg:</p> <p>(I) Charging for facilities will remove the congestion (XD for facilities) as QD will fall, DWL will exist (see shaded area on GRAPH 2)</p> <p>Building more facilities reduces congestion by making more facilities available and eliminates DWL.</p> <p>(E) Charging is a lower cost solution, earns a revenue, cheaper than building facilities, facilities use tax which could be used elsewhere</p> <p>Building more facilities (provided it shifts max capacity to Q_{s1} on GRAPH 1) will remove congestion (XD) but it also removes the DWL area whereas user pays create a DWL.</p>	A partial answer that has EITHER the I OR the E point.	Has BOTH I AND E points in explanation.	
A2 ^{EQ} or M2 ^{EQ} #	(f) (i) (ii)	<p>Circles Increase in equity.</p> <p>(I) Very few taxpayers receive any benefit from the government expenditure on National Parks.</p> <p>(E) Is fair that NZ users and tourists pay for use of facilities.</p> <p>Circles Decrease</p> <p>(I) Charging for use of facilities lowers equity because lower income people will not be able to afford to use parks</p> <p>(E) Is unfair to pay tax and a user charge, now difficult to access a public facility which was previously free.</p>	A partial answer that has EITHER the I OR the E point.	Has BOTH I AND E points in explanation.	
E2 Breadth	(d) (ii) (e) (ii) (f) (i+ii)	A2# M2 ^{EF} # M2 ^{EQ} #			All THREE # grades

Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A1	Three (a)	Circles Less and Equal	BOTH correct.		
A2	(b)	eg benefits, progressive income taxes, collective goods, superannuation, working for families, public provision.	Any TWO examples.		
A1 or M1	(c)	(I) If people are eg, working longer hours or are more skilled (E) they earn more, creating an unequal income distribution (income inequality) But it is fair that they earn more than those not working hard or who are unskilled (Q)	A partial answer that has EITHER the I OR the E point.	Has BOTH I AND E points in explanation.	

Judgement Statement

Achievement	Achievement with Merit	Achievement with Excellence
1 × A1 1 × A2 6 other A or M or E	1 × A1 1 × A2 1 × M1 1 × M2 ef and 1 × A2eq OR 1 × M2 eq and 1 × A2 ef OR 1 × M2ef and 1 × M2eq 6 other A or M or E	1 × A1 1 × A2 1 × M1 1 × M2 ef and 1 × A2eq OR 1 × M2 eq and 1 × A2 ef OR 1 × M2ef and 1 × M2eq 1 × E 6 other A or M or E
<p style="text-align: center;">Codes A1 and M1 refer to the first criterion. A1, M2 and E refer to the second criterion. Ef refers to Efficiency. Eq refers to Equity.</p>		